

Message Text

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ACTION ARA-14

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R 031348Z APR 78
FM AMCONSUL RIO DE JANEIRO
TO SECSTATE WASHDC 6071
INFO AMEMBASSY BRASILIA
AMEMBASSY TOKYO
AMEMBASSY ROME

LIMITED OFFICIAL USE SECTION 1 OF 2 RIO DE JANEIRO 1519

E.O. 11652: N/A
TAGS: EMIN, BR
SUBJECT: GO-AHEAD ON TUBARAO STEEL PROJECT

REF: BRASILIA 8191

1. SUMMARY: AFTER SEVERAL MONTHS OF NEGOTIATIONS, BRAZIL AND JAPANESE/ITALIAN PARTNERS IN TUBARAO PROJECT RESOLVED REMAINING DIFFICULTIES ON MARCH 16, AND AGREED TO BEGIN CONSTRUCTION OF 3 MILLION TON-PER YEAR STEEL PLANT IN NEAR FUTURE. REVISED AGREEMENT BETWEEN 3 PARTNERS CALLS FOR BRAZIL TO ABSORB HALF OF TWO FOREIGN PARTICIPANTS SHARE OF TUBARAO (SLAB) STEEL OUTPUT FOR FIRST THREE YEARS OF PROJECT'S OPERATION (PREVIOUSLY ITALIANS AND JAPANESE WERE EACH RESPONSIBLE FOR 20 PERCENT OF TUBARAO'S TOTAL OUTPUT). AGREEMENT ALSO CALLS FOR JAPANESE SUPPLY (IN THE FORM OF LONG-TERM LOAN) OF AT LEAST AN ADDITIONAL \$500 MILLION (IF NOT ALL) OF BRAZIL'S SHARE OF PROJECT FINANCING-- NOW ESTIMATED AT \$700-750 MILLION, UP FROM EARLIER \$613 MILLION -- WITH
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ITALIANS (POSSIBLY) PROVIDING REMAINING \$200-250 MILLION. TERMS OF BRAZILIAN REPAYMENT OF PLANNED LOAN NOT YET CLEAR, BUT MAY POSSIBLY INVOLVE MORATORIUM OF SEVERAL YEARS AND 10-YEAR PAYBACK SCHEDULE. TUBARAO IS NOW OFFICIALLY SCHEDULED TO BEGIN OPERATION IN 1982, WITH SITE PREPARATION CONTRACTS TO BE SIGNED IN LATE MARCH AND WORK AT

TUBARAO'S ESPIRITO SANTO LOCATION TO BEGIN SHORTLY THEREAFTER. END SUMMARY.

2. BACKGROUND: TUBARAO PROJECT HAS BEEN THE SUBJECT OF A CONTINUING DEBATE FOR SOME MONTHS, BOTH WITHIN THE BRAZILIAN GOVERNMENT AND BETWEEN BRAZILIANS AND THEIR JAPANESE AND ITALIAN PARTNERS. INTERNALLY, DEBATE CENTERED AROUND A POSSIBLE CHANGE IN THE PROJECTED PLANT'S OUTPUT MIX (I.E. LESS SLAB OUTPUT, SOME FINISHED STEELS). HOWEVER, COMPANHIA SIDERURGICA NACIONAL (CSN) AND COMPANHIA SIDERURGICA PAULISTA (COSIPA) OFFICIALS ARGUED THAT PROPOSED CHANGE IN TUBARAO'S PRODUCTION WOULD HAVE HAD A SERIOUS NEGATIVE EFFECT ON THE OPERATIONS OF THESE TWO PLANTS IN THE EARLY 1980'S I.E. FINISHED STEEL OUTPUT POSSIBLY CURTAILED BECAUSE OF LACK OF SUFFICIENT SLAB (SEMI-FINISHED) STEEL SUPPLIES, ORIGINALLY PLANNED TO BE OBTAINED FROM TUBARAO). IN ADDITION, FORCEFUL REPRESENTATIONS BY MINAS GERAIS STATE OFFICIALS OVERWHELMED A TENTATIVE GOB INITIATIVE TO MODIFY ACOS DE MINAS GERAIS S.A. (ACOMINAS) OUTPUT TO COMPENSATE FOR POSSIBLE CHANGES AT TUBARAO. SUM OF ARGUMENTS AGAINST CHANGES PROVED COMPELLING AND ORIGINAL TUBARAO PLAN (AND OUTPUT) WAS REAFFIRMED.

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3. ONCE INTERNAL DEBATE SUBSIDED, BRAZILIAN NEGOTIATORS INCREASED PRESSURE ON THEIR OVERSEAS PARTNERS TO RESOLVE FINANCING AND DISPOSAL-OF-OUTPUT ISSUES, REMAINING STUMBLING BLOCKS TO PROJECT INITIATION; RECENTLY-ANNOUNCED AGREEMENT WAS THEN (RELATIVELY) QUICKLY HAMMERED OUT. END BACKGROUND.

4. BEGIN COMMENT: BEGIN LIMITED OFFICIAL USE. CONTRARY TO INFORMATION CONTAINED IN REFTEL, LOCAL LOGISTICAL AND INFRASTRUCTURE PROBLEMS (ESPECIALLY WORKER HOUSING) AT TUBARAO'S ESPIRITO SANTO SITE WERE NEVER A SIGNIFICANT FACTOR IN DECISION-MAKING PROCESS REGARDING PROJECT'S FUTURE. THROUGHOUT TUBARAO'S LONG GESTATION, KEY FACTORS WERE: RESOLUTION OF INTRA-BRAZILIAN GOVERNMENTAL PROBLEMS NOTED ABOVE; DIFFICULTIES ASSOCIATED WITH DISPOSITION OF INITIAL THREE YEARS' OUTPUT; AND, TO A LESSER EXTENT, REFINANCING OF BRAZIL'S SHARE OF PROJECT. HOWEVER, ACTUAL PACE OF FORWARD MOVEMENT ON TUBARAO REMAINS TO BE SEEN. INDUSTRY OBSERVERS DOUBT THAT PROJECT WILL BE COMPLETED AND PRODUCTION WILL BEGIN AS

SCHEDULED-- I.E. IN 1982 -- BUT MANY BELIEVE THAT
NOW GO-AHEAD HAS BEEN DECIDED ON, TUBARAO PROJECT
WILL BE GIVEN A REASONABLE DEGREE OF PRIORITY, IF
ONLY BECAUSE OF CSN AND COSIPA'S PRESSING NEED FOR
SEMI-FINISHED STEEL SUPPLIES IN EARLY 1980'S. (FYI:
BEST ESTIMATE FOR ACTUAL TUBARAO PRODUCTION STARTUP IS LATE
1983 OR EARLY 1984).

5. TERMS OF NEW FINANCING PACKAGE, WHEN REVEALED,
WILL PROVIDE USEFUL INSIGHT INTO KIND OF DEAL
BRAZILIANS WERE ABLE TO OBTAIN WITH OVERSEAS PARTNERS:
I.E., IF RELATIVELY FAVORABLE, FINANCING WILL
DEMONSTRATE STRENGTH OF JAPANESE (AND ITALIAN)
DESIRE TO MOVE FORWARD ON PROJECT. (FYI. SIZEABLE
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EQUIPMENT PURCHASES FROM TWO COUNTRIES WILL, NO DOUBT,
HAVE ALSO WEIGHED HEAVILY IN LATTER'S CALCULATIONS.)

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6. AT SAME TIME, IT SHOULD BE KEPT IN MIND THAT ALL
THREE COUNTRIES -- ESPECIALLY BRAZIL -- HAVE CERTAIN
AMOUNT OF NATIONAL PRESTIGE TIED UP WITH PROJECT, AND

DURING THE LONG AND ARDUOUS NEGOTIATING PROCESS, NO SERIOUS ATTEMPTS WERE APPARENTLY EVER MADE TO DERAIL TUBARAO, IN SPITE OF RECESSED CONDITIONS IN WORLD'S STEEL INDUSTRY AND ON EXPORT MARKETS VITAL OT THE DISPOSITION OF A SIGNIFICANT PART OF PLANT'S OUTPUT. IN PARTICULAR, DOGGED PERSISTENCE WITH WHICH GOZ PLANNERS PURSUED PROJECT WAS A CLEAR EARNEST OF THEIR DETERMINATION TO MOVE PROJECT FORWARD, REGARDLESS OF RELATIVELY UNFAVORABLE COMMERCIAL ENVIRONMENT. IN OTHER WRDS, PROJECT HAD A BUILT-IN, ULTIMATELY IRRESISTIBLE IMPETUS, DERIVED LARGELY FROM THESE PRESTIGE CONSIDERATIONS. (BASED SOLELY ON ECONOMIC FACTORS, IT IS NOT BELIEVED THAT THREE COUNTRIES WOULD HAVE PROCEEDED WITH TUBARAO).

7. THUS, POLITICAL AND NATIONAL PRESTIGE FACTORS, PLUS TUBARAO'S IMPORTANT ROLE IN BRAZIL'S OERALL LIMITED OFFICIAL USE

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STEEL PLAN (PARTICULARLY AS FURNISHERS OF A LRGE PART OF COSIPA AND CSN'S SLAB SUPPLIES IN THE 1980'S) -- AND A PRODABLE JAPANESE DESIRE NOT TO BE SEEN TO BE NON-COOPERATIVE ON A HIGHLY-VISIBLE MAJOR PROJECT LAUNCHED WITH GREAT FANFARE -- ALL CONTRIBUTED TO TUBARAO'S EVENTUAL FORWARD MOVEMENT, IN SPITE OF THE IMPRESSIVE SERIES OF OBSTACLES ENCOUNTERED OVER THE LAST TWO YEARS. END COMMENT. END LIMITED OFFICIAL USE.

8. EMASSY CONCURS.
DESTER

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